



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report Show Low Unified School District Fiscal Years 2011, 2012 and 2013

Report Number—15-5

September 24, 2014

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John Huppenthal
Superintendent of
Public Instruction

September 24, 2014

Mr. Kevin Brackney, Superintendent
Show Low Unified School District
500 W Old Linden Rd.
Show Low, AZ 85901

Dear Mr. Brackney,

The Arizona Department of Education Audit Unit has conducted an audit of the Show Low Unified School District (District) Average Daily Membership for Fiscal Years 2011, 2012 and 2013. The purpose of the audit was to address whether the District properly reported student enrollment and attendance data and to determine if it received the correct amount of Basic State Aid.

Auditors determined that the District did not accurately report some student data and some AOI data for FY2011, FY2012 and FY2013, which resulted in the District's ADM being overstated by 0.423. As a result, the District was overfunded by \$3,157.45, which the District must repay to ADE.

We appreciate the cooperation and assistance provided by the District's administration during the course of the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Lisa Eddy".

Lisa Eddy,
Chief Auditor

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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Show Low Unified School District (District) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the District properly reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid for FY2011, FY2012 and FY2013.

Average Daily Membership audits of district and charter holder funding—Pursuant to A.R.S. § 15-239, ADE may conduct ADM audits, which help ensure the appropriate distribution of Basic State Aid provided annually to school districts and charter schools. School districts and charter schools receive Basic State Aid based on several factors related to student enrollment and attendance. To receive funding, school districts and charter schools report enrollment and attendance data to ADE. ADE processes that data, determines payment amounts according to the relevant statutory funding formulas and distributes payments to schools up to twelve times each year.

The ADM audit process determines whether payments were correct or if an adjustment is needed. The audit process compares the school district or charter school's information reported to ADE's student data system, the Student Accountability Information System (SAIS), to information found on the original records kept at the school. If auditors find that the school district or charter school's reported information does not match the original documentation, the audit will calculate and report the funding adjustment needed to the school district's or charter school's Basic State Aid. These funding adjustments can be positive or negative, depending upon the audit findings. The audit findings are written and compiled into a report that is then issued to the audited entity.

Superintendent's legal notice links the audit and appeals processes—In addition to the report, the audited entity receives The Notice of Audit Findings and Required Reimbursement (Notice) that details the audit findings and determination of the Superintendent of Public Instruction (Superintendent) regarding adjustments to be made to the school district or charter school pursuant to A.R.S. § 15-915. The audited entity may appeal the Superintendent's decision in the Notice.

Opportunity to appeal the audit—A.R.S. § 41-1092.03 provides the audited school district or charter school that disagrees with the Superintendent's decision in the Notice with the opportunity to file a formal appeal within thirty (30) days after the report was issued. If an appeal is filed, the school district or charter school and ADE may reach agreement in an informal settlement conference. If an agreement is not reached at the informal settlement conference, the appeal will be adjudicated by the Office of Administrative Hearings.

Funding adjustment process and timeframes—When the Notice is finally settled or adjudicated, if ADE has determined that a school district or charter school received an incorrect amount of Basic State Aid, A.R.S. § 15-915 directs that corrections to schools' funding be made in the current budget year. In case of hardship, schools may request that the Superintendent allow a correction to be made partly in the current budget year and partly in the following budget year.

In addition, ADE will adjust the District's budget capacity if required. ADE School Finance Memorandum 13-011 summarizes the budget capacity adjustment authorized by statute:

A.R.S. §15-915, as amended by Laws 2012, Chapter 357, Section 3, requires the superintendent of public instruction, when it is determined that state aid or budget limits have been calculated in error, within the prior 3 years, to make corrections to budget limits and state aid in the current year. (Hardship application may be approved by the superintendent). Effective for audits initiated during FY2013 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.

District financial and other information—The District, located in Show Low, Arizona, maintained two high schools, one junior high school, three elementary schools and one Arizona Online Instruction (AOI) school during the fiscal years audited. Table 1 presents the District's unaudited student, staffing and financial information for FY2011, FY2012 and FY2013.

Table 1

**Show Low Unified School District
Total Students, Staffing, Revenues and Expenditures
FY2011, FY2012 and FY2013
(Unaudited)**

	FY2011	FY2012	FY2013
Students Enrolled	2,369	2,392	2,439
Number of Teachers	121	123	123
Revenue			
Local	\$10,863,442	\$11,046,680	\$ 11,285,220
County	220,981	235,295	254,272
State	6,548,083	6,083,855	5,843,972
Federal	2,400,018	2,528,056	2,017,665
Total Revenues	<u>\$20,032,524</u>	<u>\$19,893,886</u>	<u>\$19,401,129</u>
Total Expenditures	\$19,810,905	\$18,938,081	\$18,986,574

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2011, FY2012 and FY2013.

SCOPE AND METHODOLOGY

The audit focused on whether the District accurately reported its data to ADE and received the correct amount of Basic State Aid in accordance with statutes, the Uniform System of Financial Records (USFR) and its own policies and procedures for FY2011, FY2012 and FY2013.

To conduct this audit, auditors used a variety of methods, including examining District and SAIS records for enrollment and attendance. Auditors also reviewed state statutes and District policies and procedures, and interviewed District management and staff. Specifically:

- ***Inaccurate enrollment data*** – Auditors reviewed 146 student profiles to determine if the enrollment data reported to ADE was correct. Auditors compared the entry and exit dates and the FTE to the student profiles to determine if an adjustment was necessary. Auditors also reviewed the total ADM for each student to ensure that they were limited properly. If the District was funded for more than 1.0 ADM for a student, an adjustment was determined.
- ***AOI data not reported correctly*** – Auditors compared the Arizona Online Instruction (AOI) data that was reported to ADE to the AOI data from the District. Auditors reviewed instructional time reported as well as the full or part time status that was reported for each student. An adjustment was determined when differences were identified.

The Audit Unit expresses its appreciation to the District's administration and staff members for their cooperation and assistance during the course of the audit.

FINDING 1: SOME STUDENT DATA WAS NOT ACCURATE, RESULTING IN AN OVERPAYMENT OF \$2,383.76

Student enrollment data was not accurate for 20 students for FY2011, FY2012 and FY2013. Specifically, auditors found that the full time equivalency (FTE) for 9 students was not reported correctly. Additionally, 11 students were not limited properly by SAIS. As a result of these errors, the District's ADM was overstated by 0.265 for the three fiscal years audited and the District received a net overpayment of \$2,383.76 in Basic State Aid for the three fiscal years audited which ADE must recoup from the District.

The District's ADM Was Overstated By 0.265 Due to Inaccurate Student Enrollment Data

The District inaccurately reported the FTE status for nine students to ADE, which resulted in the District's ADM being underreported by 0.125. Additionally, 11 District students were not properly limited by SAIS, which resulted in the District's ADM being overreported by 0.390. As a result, the District's ADM was overstated in the three fiscal years audited by 0.265.

The FTE status for nine District students was reported incorrectly— According to A.R.S. § 15-901 and ADE Guidelines and Procedures EX-18 (EX-18), a high school student must be scheduled for at least 720 instructional hours during the year and at least 20 hours per week for the student to be reported as one FTE. A student who does not meet these requirements is considered a part-time student and their FTE status is prorated based on the number of instructional hours provided.¹ However, for nine students, the FTE status was not reported correctly to SAIS. As a result, the ADM for the District was underreported by 0.125.

District students were not appropriately limited—Auditors determined that 11 District students attended more than one school within the District, and were not properly limited by SAIS because to a maximum of 100 membership days. While SAIS should have limited these students, it failed to do so for students that were enrolled in a District school and the District AOI. This resulted in the District's ADM being overstated in FY2012 and FY2013. According to EX-18, if a student is concurrently enrolled in any combination of District or charter schools, the maximum ADM of 1.0 is required to be divided proportionally based on enrollment. For these 11 District students in FY2012 and FY2013, the student's funded ADM exceeded 1.0. As a result, the District's ADM was overstated by 0.390.

¹ Pursuant to A.R.S. § 15-901, a full time student (1.0 FTE) in grades 9 through 12 must be scheduled for and attending at least 720 hours of instruction and at least 20 hours per week, a 0.75 FTE student must be scheduled for at least 540 hours of instruction and at least 15 hours per week, a 0.50 FTE student must be scheduled for at least 360 hours of instruction and at least 10 hours per week and a 0.25 FTE student must be scheduled for at least 180 hours of instruction and at least 5 hours per week.

ADM adjustments due to enrollment data errors—As shown in Table 2, these errors resulted in a net ADM overstatement of 0.265 for FY2011, FY2012 and FY2013.

Table 2

**Show Low Unified School District
ADM Adjustments Due to FTE and Limiting Errors
FY2011, FY2012 and FY2013**

	FY2011	FY2012	FY2013	Total
Inaccurate FTE	(0.218)	0.050	0.043	(0.125)
Students not limited to 100 membership days	0.000	0.032	0.358	0.390
Total ADM Adjustment for Enrollment Data Errors	(0.218)	0.082	0.401	0.265

Source: Auditor analysis of District records and SAIS data for FY2011, FY2012 and FY2013.

The District Must Reconcile Its Enrollment Data With SAIS

The District can avoid errors in the future it regularly and correctly reconciles its data to the data contained in SAIS. The District should review the reports produced by SAIS and reconcile them to the District's SMS data to identify any discrepancies that would affect funding and correct any errors identified.

The District Was Overfunded by \$2,383.76

Auditors determined that the District did not receive the correct amount of Basic State Aid for FY2011, FY2012 and FY2013. The enrollment data errors resulted in the District's ADM being overstated by 0.265 for the three fiscal years audited. However, because the District did not receive any funding for students in grades 9-12 that were enrolled in FY2011, there was no funding adjustment for FY2011. For FY2012 and FY2013, the District was overfunded by \$2,383.76 in Basic State Aid, which ADE must recoup from the District. Table 3 shows the ADM and funding adjustments required for the District for FY2011, FY2012 and FY2013.

Table 3

**Show Low Unified School District
ADM and Funding Adjustments
FY2011, FY2012 and FY2013**

	FY2011	FY2012	FY2013	Total
ADM Adjustments	(0.218)	0.082	0.401	0.265
Funding Adjustments	\$0.00	\$388.18	\$1,995.58	\$2,383.76

Source: Auditor analysis of District records and SAIS data for FY2011, FY2012 and FY2013.

Recommendations:

1. ADE must recoup from the District \$2,383.76 in Basic State Aid due to incorrectly reported enrollment data.
2. The District must comply with A.R.S. § 15-901 and EX-18 when calculating and reporting FTE status to SAIS.
3. The District must properly reconcile its data each year to ensure it complies with A.R.S. § 15-901 and EX-18.

FINDING 2: THE DISTRICT DID NOT ACCURATELY REPORT SOME AOI DATA RESULTING IN AN OVERPAYMENT OF \$773.69

The District did not accurately report enrollment data for some of its AOI students to ADE for FY2012 and FY2013. Specifically, auditors found that the District inaccurately reported 17 students as full time when they were attending part time, which resulted in the District's AOI ADM being overstated by 0.231. In addition, 2 students were not reported to SAIS resulting in the District's ADMY being understated by 0.072. As a result, the District was overfunded by \$773.69 in Basic State Aid for the two fiscal years that the AOI was operating, which ADE must recoup according to A.R.S. § 15-915.

The District Inaccurately Reported AOI Data for 19 Students

Auditors determined that the District inaccurately reported some AOI student data, which led to the District's AOI ADM being overreported by 0.159.² Auditors identified 19 students during the two fiscal years audited that the District misreported student AOI data. The District inaccurately reported the AOI enrollment data for 19 students as follows:

- 17 students were reported to SAIS as enrolled in the AOI full time; however, the students were not enrolled in at least four classes as required by A.R.S. §15-808 and should have been reported as being enrolled part time. Since full time students and part time students are funded at different rates, this resulted in the District's ADM being overstated by 0.231 ADM for FY2012 and FY2013.
- 2 students were not reported to SAIS; however, District documentation showed the students had participated in the AOI, which resulted in the District's ADM being understated by 0.072 for FY2012 and FY2013.

As shown in Table 4 (see page 8), for the two fiscal years audited, the District's ADM was overstated by a total of 0.159.

² According to A.R.S. § 15-808, high school AOI ADM is calculated by dividing the total instructional hours as reported in a daily log for the entire fiscal year by 900.

Table 4

**Show Low Unified School District
AOI ADM Adjustments Due to Data Reporting Errors
FY2012 and FY2013**

	FY2012	FY2013	Total
Incorrectly reported as full time, but should have been part time	0.095	0.136	0.231
Attended the AOI, but was not reported to SAIS	(0.025)	(0.047)	(0.072)
Total	0.070	0.089	0.159

Source: Auditor analysis of District records and SAIS data for FY2012 and FY2013.

**The District Was
Overfunded by \$773.69**

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the inaccurate AOI student data reported to ADE for FY2012 and FY2013. As a result, the District was overfunded by \$773.69 in Basic State Aid, which ADE must recoup from the District pursuant to A.R.S. § 15-915. Table 5 shows the ADM and funding adjustments required for the District for FY2012 and FY2013.

Table 5

**Show Low Unified School District
AOI ADM and Funding Adjustments Due to
Data Reporting Errors
FY2012 and FY2013**

	FY2012	FY2013	Total
ADM Adjustments	0.070	0.089	0.159
Funding Adjustments	\$329.94	\$443.75	\$773.69

Source: Auditor analysis of District records and SAIS data for FY2012 and FY2013.

Recommendations:

1. ADE must recoup from the District \$773.69 in Basic State Aid due to incorrectly reported AOI data.
2. The District must ensure it complies with A.R.S. § 15-808 when calculating and reporting AOI data.

ADM AND FUNDING ADJUSTMENTS

A.R.S. § 15-915 requires that ADE makes corrections for audit findings to both budget capacity and state aid. ADE's School Finance Unit's Memo 13-011 informs LEAs of these statutory requirements:

A.R.S. §15-915, as amended by Laws 2012, Chapter 357, Section 3, requires the superintendent of public instruction, when it is determined that state aid or budget limits have been calculated in error, within the prior 3 years, to make corrections to budget limits and state aid in the current year. (Hardship application may be approved by the superintendent). Effective for audits initiated during FY2013 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.

Budget capacity adjustment required—The District must adjust its budget capacity for the two fiscal years audited. Budget capacity adjustment calculations for the District will be made by ADE once the audit is finalized.

Basic State Aid adjustment of \$3,157.45 required to be repaid to ADE—The District has made great efforts to ensure accurate reporting of ADM data, and the auditors identified an overall funding adjustment of only \$3,157.45 for the three fiscal years audited.

Table 6 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for FY2011, FY2012 and FY2013.

Table 6

**Show Low Unified School District
ADM and Funding Adjustments Required for
FY2011, FY2012 and FY2013**

	FY2011		FY2012		FY2013		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Enrollment Errors	(0.218)	\$0.00	0.082	\$388.18	0.401	\$1,995.58	\$2,383.76
AOI Errors	<u>0.00</u>	<u>\$0.00</u>	<u>0.070</u>	<u>\$329.94</u>	<u>0.089</u>	<u>\$ 443.75</u>	<u>\$ 773.69</u>
Total Funding Adjustment	<u>(0.218)</u>	<u>\$0.00</u>	<u>0.151</u>	<u>\$718.12</u>	<u>0.490</u>	<u>\$2,439.33</u>	<u>\$3,157.45</u>

Source: Auditor analysis of SAIS and District student and financial data for FY2011, FY2012 and FY2013.